

Message Text

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ACTION EA-09

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC638

INFO AMEMBASSY CANBERRA

UNCLAS WELLINGTON 3855

E.O. 11652: N/A

TAGS: ECON, NZ

SUBJECT: MINI-BUDGET BRINGS ROUND OF PRICE INCREASES.

REF: WELLINGTON'S 3796

1. MOVING MORE SWIFTLY THAN MOST OBSERVERS ANTICIPATED, THE NATIONAL GOVERNMENT "BIT THE BULLET" BY ABOLISHING LONG-STANDING GOVERNMENT SUBSIDIES OF POWER, POSTAL CHARGES, RAIL PASSENGER AND FREIGHT RATES.

2. IN AN ANNOUNCEMENT MADE THE EVENING OF DECEMBER 18, GNZ SPELLED OUT THE FOLLOWING INCREASES:

A) RETAIL ELECTRICITY RATES TO INCREASE BY 45 PERCENT FROM APRIL NEXT YEAR;

B) POSTAGE RATES UP 100 PERCENT FROM FEBRUARY 2;

C. SIGNIFICANT INCREASES IN PHONE RENTALS AND A SURCHARGE UP TO 60 CENTS ON LONG DISTANCE PHONE CALLS, TELEGRAMS TO DOUBLE IN COST FROM FEBRUARY 2 WHILE INCREASES IN TEXLEX RENTALS., LEASED CIRCUITS AND LEASED EQUIPMENT WILL TAKE EFFECT APRIL 1;

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D) BEGINNING FEBRUARY 1 RAIL FARES FOR INTER-CITY TRAVEL WILL INCREASE BY 64 PERCENT AND SUBURBAN RATES WILL

RISE BY 38 PERCENT IN AN EFFORT TO AVOID AT LEAST PART
OF A PROJECTED NZ\$77 MILLION RAILWAY OPERATING
LOSS FOR THE CURRENT FISCAL YEAR.

3. WHILE BOTH POLITICAL PARTIES WERE IN AGREEMENT THAT
REDUCTION OF SUBSIDIES COVERING THESE SERVICES WERE
NECESSARY, THE LABOR PARTY WAS QUICK TO CRITICIZE
THE MAGNITUDE OF THE COST INCREASES ANNOUNCED BY
THE NEW GOVERNMENT. DEPUTY LEADER OF THE OPPOSITION
AND FORMER FINANCE MINISTER TIZARD LABELLED THEM
"SAVAGE" AND STATED HIS ADMINISTRATION, IF CONTINUED
IN OFFICE, WOULD HAVE BEEN SATISFIED WITH INCREASES
OF : 2 CENTS ON MAIL CHARGES, 20 PERCENT ON RAILWAY RATES;
AN AD 37.2 PERCENT INCREASE IN THE COST TO CONSUMERS OF
BULK ELECTRICITY.

COMMENT:

THE PROMPTNESS OF THIS ACTION AND THE MAGNITUDE OF THE PRICE
INCREASES DEMONSTRATE THE NO-NONSENSE APPROACH OF THE NEW
ADMINISTRATION TOWARD NEW ZEALAND'S ECONOMIC PROBLEMS. BY
ANNOUNCING ALMOST SIMULTANEOUSLY THE APPOINTMENT OF FIVE
SENIOR ECONOMISTS AS FULLTIME ADVISERS AND POLICY CO-ORDINATORS
WITHIN THE NEWLY CREATED PRIME MINISTER'S DEPARTMENT, MR.
MULDOON AGAIN EMPHASIZED THE IMPORTANCE HE PLACES ON THE ECONOMY.
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